



Attachment 1

**Andrew Junkin, CFA, CAIA**  
**Managing Director & Principal**

May 25, 2011

Mr. J.J. Jelincic  
Chair of the Investment Policy Subcommittee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: Proposed Policies Regarding the Affiliate Fund

Dear Mr. Jelincic:

You requested Wilshire's opinion with respect to the proposed policies with respect to the Affiliate Funds

#### **Recommendation**

**Wilshire recommends that the Investment Subcommittee approve the proposed policies, noting one proposed revision below. While having separate policies for each Affiliate Fund creates additional policies that will have to be maintained going forward, the additional policies result in additional clarity for each stakeholder in each of the funds.**

#### **Discussion**

The proposed changes for these policies are significant: total repeal of the existing Affiliate Funds Policy and the creation of separate investment policies for CERBT, Judges' Retirement System II, Legislators' Retirement System, and Long Term Care. Each of the new policies builds off of the current (but to-be-repealed) Affiliate Fund Policy, so this project is not a total rewrite. The most significant change in each of the policies is the inclusion of the new target asset allocations for each of the Affiliate Funds. Other changes are largely ministerial.

One section that the Policy Subcommittee may wish to discuss is Section II, C, which states, "(The portfolio will be managed to) **maintain sufficient diversification to avoid significant losses and preserve capital.**" Depending on the fund, the allocation to Global Equity ranges from 32% to 66%, which is expected to drive returns but is accompanied by volatility. In Staff's asset allocation analysis, simulated returns from various historical bear markets for financial assets. While the losses ranged depending largely on the allocation to equities, avoiding a significant loss depends on the definition of "significant". Wilshire proposes to change this section to read, "**maintain significant diversification to temper losses from market volatility.**"

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read 'Andrew Junkin'.

**Wilshire Associates**

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